

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2013

Docket No. ACR2013

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 9**
(February 27, 2014)

The United States Postal Service hereby provides its response to Chairman's Information Request No. 9, issued on February 20, 2014. The question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

John F. Rosato
David H. Rubin

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-8597
John.F.Rosato@usps.gov

9. Please refer to Library Reference USPS-FY13-3, USPS-FY13-3.Workshare[1].zip, workbook FY13.3.Worksharing Discount Table_Final.xlsm, tab "Standard Mail Letters".
- (a) Please confirm that the avoided cost for Standard Mail Automation AADC Letters is \$0.015, resulting in a passthrough of 106.7 percent for the Standard Mail Automation AADC Letters category. [Note: Docket No. RM2012-6, which established a new benchmark for the calculation of the workshare passthrough for Automation 5-Digit Letters, made no adjustments to the calculation of the passthrough for the AADC category.] If not confirmed, please explain.
- (b) If part (a) is confirmed, please identify an applicable exception in 39 U.S.C. § 3622(e)(2)(B) and provide a justification supporting the statutory exception.

RESPONSE

- (a) Confirmed that, if you use the avoided cost for Standard Mail Automation AADC Letters only, the avoided cost of \$0.015 results in a passthrough of 106.7 percent for the category. However, the Postal Service used the weighted average of AADC/3-Digit costs in USPS-FY-13-3. Using this method the avoided cost is \$0.019 and the passthrough is 84.2 percent. The Postal Service believes that the weighted average of AADC/3-Digit costs should be used not only as a benchmark for the calculation of 5-Digit prices, but also for the calculation of AADC/3-Digit prices. The logic that is used in the first instance can and should be used for the derivation of AADC/3-Digit prices. It makes no sense to have a different cost avoidance for AADC than for 3-Digit, when they

represent a single price cell. Simply put, using only AADC cost avoidance for this price cell ignores the 3-digit cost avoidance.

- (b) Using the weighted average method as filed, no exception is required for Standard Mail Automation AADC/3-Digit Letters. The Postal Service continues to believe that the weighted average is the appropriate cost avoidance benchmark. However, if the cost avoidance remains at the unweighted AADC level, the Postal Service intends to align each of these discounts with the most recently estimated cost avoidance at the time of the next general rate adjustment. This assumes that this alignment is consistent with available CPI cap space and the business strategy needs at the time of the price change filing.